Ontario Lottery Corporation

LOTTO 649

Annual Report 1989

Sept. 30, 1989

The Honourable Ken Black
Minister of Tourism and Recreation
77 Bloor St., West
Toronto, Ontario
M7A 2R9

Dear Mr. Black:

Pursuant to the provisions of the Ontario Lottery Corporation Act, I am pleased to present the annual report of the Ontario Lottery Corporation for the year ending March 31, 1989.

Yours very truly,

Walter G.D. Stothers
Chairman of the Board

Front cover:
Violda Forbes tends her patient, Pat Wasser, at the Baycrest Centre for Geriatric Care which was funded, in part, by a lottery grant.

Board Members

Walter G.D. Stothers, FCA
Thornhill, chairman
(April 17, 1986 - Feb. 16, 1992)

Sandra McKinnon Jolley
Toronto, vice-chairman
(June 2, 1986 - Feb. 16, 1992)

Anne E. Bender
Mississauga, director
(March 26, 1987 - Feb. 16, 1990)

Patrick W.E. Hodgson
London, director
(March 26, 1987 - Feb. 20, 1989)

Donald K. Jackson
Toronto, director
(July 14, 1988 - Nov. 28, 1989)

Chan Yeung Kang, LLB
Downsview, director
(June 2, 1986 - Feb. 16, 1992)

James David Meekison
Toronto, director
(Feb. 26, 1987 - Feb. 16, 1990)

David Peiowis
Nepean, director
(Feb. 26, 1987 - Feb. 16, 1990)

Senior Staff

Ian Hislop-Jones
president

Adam J. Hawkins
executive vice-president

J. Michael Holroyde
vice-president
Sales and Distribution

John MacNabb
vice-president
Computer Services

Kathy Petrik
vice-president
Corporate Communications

Philip Rowlatt-Smith
vice-president
Marketing

John Van Camp
controller

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About the Ontario Lottery Corporation

The Ontario Lottery Corporation was established in 1975 to develop and manage provincial government lotteries.

The Corporation currently operates Wintario, Lottario, Instant, Pick-3 (Ontario-only games), Provincial, Lotto 6/49 and periodic special event games (inter-provincial games).

In its capacity as a Crown corporation, it has generated more than $3 billion for the province of Ontario.

Profits are made available for sports, physical fitness, recreational and cultural activities through the ministries of Tourism and Recreation and Culture and Communications. Other beneficiaries have included health research, hospitals, senior citizens' housing, province-wide charities through the Trillium Foundation and other emerging priorities.

1988/89 Highlights

Sales	• Cash sales were $1.3 billion, up $26 million
Profit	• $484 million, up $13 million
Prizes	• cash prizes - $608 million, up $10 million
Prize Money Unclaimed	• consists of prizes unclaimed from 0-1 month ($14.3 million); 1-12 months ($12.5 million) and over 12 months ($21.3 million)
Operating Expenses	• maintained a level of 8.1% of cash sales • operating expenses, net of interest income were $105.8 million, up $2 million
Commissions	• $102.4 million, up $1.3 million
New Games	• Pick-3 launched January 1989

Ten Year Review-Operating Highlights ($Millions)

	1979/80	*1980/81*	*1981/82*	*1982/83*	*1983/84*	*1984/85*	*1985/86*	*1986/87*	*1987/88*	*1988/89*
Cash Sales	287.4	422.9	448.6	494.7	608.8	759.5	946.4	1.254.4	1.273.9	1.300.6
Commissions	28.3	41.2	41.4	44 1	50.3	60.6	75.4	100.2	101.1	102.4
Prizes	182.7	270.3	271.9	294.4	341.0	415.5	510.9	673.8	679.6	685.6
Total Operating Expenses	22.2	36.7	45.0	54.4	58.4	91.7	107.2	109.9	109.3	112.1
Interest	4.3	6.7	8.9	6.4	4.6	5.5	6.4	5.8	5.6	6.3
Net Profit/ Proceeds	92.8*	148.8	157.5	163.5	216.7	249.6	320.7	458.7	471.1	484.1
Number of Games	3	4	4	5	6	6	6	6	6	6

**After Extraordinary Expenses*

Chairman's Report

The Ontario Lottery Corporation's cash sales and profit for fiscal year 1988/89 reached $1.3 billion and $484 million respectively, representing modest increases over last year's results of $1.27 billion and $471 million.

Cumulative profit handed over to the government of Ontario for important public projects has exceeded $3 billion during the Corporation's 14-year history.

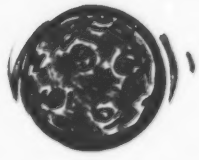
This year's financial results demonstrate significant success in our business strategy to counter the consequences of product maturity. Our ongoing objective is to maintain a stable source of funding for the government of Ontario for the worthwhile projects being helped by lottery dollars.

With a strong focus on new and revitalized games and innovative bonus draws, we are fulfilling our commitment to lottery players to provide low-cost entertainment and a variety of product choices.

Looking to the future, exciting products along with stimulating promotional activities will reflect the Corporation's strong consumer orientation.

In tandem with its business responsibilities, the Corporation continues to prepare for its relocation to Sault Ste. Marie as part of the government's Northern Ontario Relocation Program. Construction on the new government building, which will house the Corporation's head office, began in January 1989 and is expected to be completed by late summer 1991.

The move to Sault Ste. Marie will provide employment opportunities, new customers for local businesses and stimulus for the construction industry in Northern Ontario.



To permit an orderly transition into its new community, the Corporation has planned to relocate its staff in a series of phases. The first phase began in October 1989 with the relocation of some 90 positions throughout the Corporation into interim office facilities.

The Corporation's accomplishments in the past years are a direct reflection of our most valued resource: quality people. Our board of directors, employees, distributors and 11,000 retailers across the province have the determination and vision to carry us into the next decade.

Our most sincere thanks continue to go to our lottery players. Their ongoing support will continue to translate into a better quality of life for all Ontarians.

Walter G.D. Stothers
Chairman of the Board

President's Report

The Ontario Lottery Corporation faces challenges familiar to many established lottery jurisdictions. With games nearing the end of their product life cycle, marketing emphasis is focused on keeping our products fresh and exciting. At the same time, OLC's management is committed to ensuring ongoing efficiency and effectiveness by constantly reviewing operations.

With cash sales of $1.3 billion, the 1988/89 fiscal year represented the first stage in a long-term strategy to provide players with a wide selection of new and entertaining products and thereby maintain moderate sales and profit growth.

In January, we added Pick-3 to our product line composed of Wintario, Instant, Lottario, Provincial, Lotto 6/49 and periodic special event games. Pick-3 meets the needs of a different market segment of lottery players – those who want a lottery game available on a daily basis.

Pick-3, which is played in other North American jurisdictions, allows players to choose to play and win by matching three numbers 'straight' (in the same order drawn) or 'boxed' (in any order).

Lotto 6/49, a game operated in conjunction with other Canadian provinces, continues to be the most popular game in Ontario. Sales of $719 million exceeded last year's by $47 million. Contributing to this performance were two successful bonus draws in which $10 million jackpot prizes were guaranteed for the last five draws of October and March.

As well, eight versions of the Instant game were introduced, offering players a wide choice of games and prize structures. Cash sales of $285 million were generated in this second-most popular game format.

Mature products, Wintario and Lottario, continued to lose ground with $100 million and $124 million in cash sales respectively being recorded. Provincial cash sales increased for the first time in several years by over $3 million, to $43 million, as a result of a game change doubling its top prize to $1 million.

Hand in hand with these game developments goes the assurance that security and integrity will continue to be the cornerstone of the Corporation.

Every aspect of our lotteries functions under the most secure conditions possible. Ticket security challenges during the fiscal year led to new developments in OLC product testing, which continues to be amongst the most rigorous of any North American lottery jurisdiction. All security procedures are consistently reviewed and enhanced to meet changing industry and technological standards.

To ensure accessibility and convenience to players, the Corporation will expand its on-line terminal network from 5,500 to 6,000 terminals. Further expansion to 8,000 terminals is planned for the next two fiscal years. In addition, we now offer bilingual services to our retailers and the general public.

The 1989/90 fiscal year will be my first as president of the Ontario Lottery Corporation. While it is truly challenging for an organization to keep its momentum after an unprecedented history of growth, change is a constant in the lottery industry. As we move into the next decade, the Corporation is eager to meet the opportunities presented.

We are looking forward to our new Northern Ontario home, Sault Ste. Marie; we are developing exciting new products for our players, and Ontarians can look forward to lottery profits continuing to help make this province an even better place to live.

Ian Nielsen-Jones
President

Distribution of Income

Prizes

Total prizes consist of cash prizes and free tickets. Cash prizes reached $608.3 million, representing 46.8% of cash sales. Free ticket prizes amounted to $77.3 million.

($ Millions)	*1988/89*	*1987/88*
Cash prizes	608.3	598.0
Free tickets	77.3	81.7
Total	685.6	679.7

Unclaimed Prizes

Prizes may be claimed for up to one year. For reporting purposes on the balance sheet, all unclaimed prize money is combined under the heading "Prize money unclaimed." These funds fall into three categories:

i) prizes from draws less than one month old;
ii) prizes from draws one to 12 months old, and
iii) prizes from draws which are more than 12 months old.
These latter funds (iii) are considered unclaimed and are used for bonus promotions.

($ Millions)	*1988/89*	*1987/88*
Prizes (0-1 month)	14.3	17.2
Prizes (1-12 months)	12.5	13.5
Prizes (12+ months)	21.3	18.0
Total	48.1	48.7

Commissions

Commissions paid to 50 independent distributors and 11,000 retailers reached $102.4 million.

Retailers received a commission of eight per cent for selling Wintario and Instant tickets and five per cent for other games. Prize redemption fees are also paid. Distributors received one per cent commission on Instant tickets, an average of 2.5 per cent on Wintario, Provincial and special events tickets and a weekly service fee of $4.50 per terminal for delivering supplies to on-line lottery terminals in their territory.

Operating Expenses

Operating costs of $112.1 million, comprising advertising, administration and equipment plus the payments to the federal government, represented 8.6 per cent of cash sales. Interest income reduced this to 8.1 per cent.

The payment of $15 million to the federal government comes under a federal-provincial agreement. The agreement, signed in 1979, saw the federal government agree to withdraw from the lottery field in return for quarterly payments from the provinces. The payment to the federal government in the previous year was $8.5 million higher due to a second agreement which has now expired.

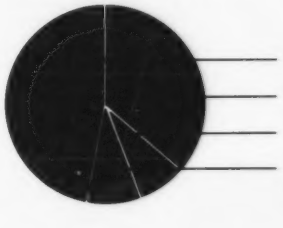
Under the two agreements, the Province of Ontario has paid the federal government a total of $148.7 million by the end of the 1988/89 fiscal year.

The Corporation's board of directors were paid a total of $10,147 in per-diems in the year for attending formal business meetings.

Sales Year Ending March 31, 1989

($ Millions)	*1988/89*			*1987/88*		
	Cash Sales	*Free Tickets*	*Total*	*Cash Sales*	*Free Tickets*	*Total*
Wintario	100	40	140	121	47	168
Lottario	124	0	124	140	0	140
Instant	287	32	319	276	30	306
Pick-3	18	0	18	–	–	–
Provincial	43	4	47	39	0	39
Super Loto	1	0	1	26	4	30
Lotto 6/49	719	0	719	672	0	672
Special Event	8	1	9	–	–	–
Total	1,300	77	1,377	1,274	81	1,355

Distribution of Cash Sales



	1988/89	*1987/88*
Cash prizes	46.8%	47.0%
Profit	37.2%	37.0%
Commissions	7.9%	7.9%
Operating expenses	8.1%	8.1%

Ontario Lottery Corporation
Balance Sheet

as at March 31, 1989

	1989	*1988*
	($000's)	*($000's)*
Assets		
Current Assets		
Cash	19,335	19,897
Prize funds on deposit	48,138	48,708
Due from Interprovincial Lottery Corporation	9,057	4,146
Accrued interest	696	430
Accounts receivable	5,077	2,263
Prepaid expenses	1,836	336
	84,139	75,780
Liabilities		
Current Liabilities		
Prize money unclaimed	48,138	48,708
Net profits due to Treasurer of Ontario	1,835	2,705
Accounts payable and accrued liabilities	18,765	12,764
Deferred income	15,401	11,603
	84,139	75,780

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

Ontario Lottery Corporation
Statement of Operations

for the year ended March 31, 1989

	1989	*1988*
	($000's)	*($000's)*
Sales		
Cash ticket sales	1,300,606	1,273,923
Free tickets	77,299	81,666
	1,377,905	1,355,589
Prizes and Commissions		
Prizes (note 3)	608,290	597,952
Free tickets	77,299	81,666
Commissions - retailers and distributors	102,354	101,056
	787,943	780,674
Sales Less Prizes and Commissions	589,962	574,915
Operating Expenses		
Administration and other expenses	42,356	33,177
Advertising	25,797	21,702
Equipment	11,223	15,209
Payments to Government of Canada (note 5)	15,450	24,034
Ticket printing	17,316	15,213
	112,142	109,335
Operating Income	477,820	465,580
Interest Income	6,310	5,555
Net Profits	484,130	471,135

See accompanying notes to financial statements.

Ontario Lottery Corporation
Statement of Net Profits due to Treasurer of Ontario

for the year ended March 31, 1989

	1989	*1988*
	($000's)	*($000's)*
Balance, beginning of year	2,705	1,570
Net profits	484,130	471,135
	486,835	472,705
Less payments to Treasurer of Ontario (note 4)	485,000	470,000
Balance, end of year	1,835	2,705

See accompanying notes to financial statements.

1. NATURE OF THE CORPORATION

The Ontario Lottery Corporation was incorporated without share capital on February 6, 1975 pursuant to the Ontario Lottery Corporation Act. The Corporation is responsible for the conduct and management of lottery games in Ontario. The Wintario, Lottario, Instant (including Grey Cup Millions) and Pick-3 lotteries are conducted solely by the Corporation, whereas, the Provincial, Super Loto, Special Events and Lotto 6/49 lotteries are joint undertakings by all Provinces acting through the Interprovincial Lottery Corporation (ILC). The Ontario Lottery Corporation purchases tickets for the Provincial, Super Loto, Special Events and Lotto 6/49 lotteries from the ILC and manages their sale throughout Ontario. The Super Loto lottery was discontinued in May 1988.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

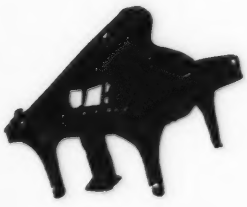
The Corporation's financial statements are prepared in accordance with generally accepted accounting principles except for fixed assets which are written off to operations at the time of acquisition.

(b) Revenue recognition

Revenues are deferred on ticket sales where a draw has not taken place as of March 31.

3. PRIZES

Included in prizes is the Corporation's share of prizes for ILC games and its share of ILC's net operating expenses. These prizes and net operating expenses for the year amounted to $347.3 and $0.8 million respectively (1988-$331.8 and $1.5 million).



4. PAYMENTS TO TREASURER OF ONTARIO

The net profits of the Corporation are payable to the Treasurer of Ontario. During the year payments were as follows:

	1989	*1988*
	($000's)	*($000's)*
Lotto 6/49	307,000	284,000
Instant	101,000	96,000
Lottario	45,000	50,000
Wintario	14,000	18,000
Provincial	13,000	14,000
Pick-3	2,000	–
Special Events	2,000	–
Super Loto	1,000	8,000
	485,000	470,000

5. PAYMENTS TO GOVERNMENT OF CANADA

The various provincial lottery corporations make remittances to the Government of Canada under an agreement dated August 1979. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets. Payments by the Ontario Lottery Corporation for the year amounted to approximately $15 million.

6. COMMITMENTS

On July 8, 1986, the government announced its intention to relocate the majority of the Corporation's operations to Sault Ste. Marie. The Corporation's commitment with respect to the land and building to be occupied by the Corporation is estimated at $30 million based on a prepaid 20 year lease with payments in each of the next 3 years. Other costs associated with the move are anticipated in the amount of $27 million. Actual costs to date are nominal and have been included in Administration and other expenses.

The Corporation also has commitments totalling $5 million for office space under operating leases expiring June 1995.

7. INCOME TAXES

As a Crown corporation of the Province of Ontario, the Corporation is exempt from income taxes and accordingly no provision is required.

Office of the
Provincial
Auditor

To the Board of Directors of the Ontario Lottery Corporation and to the Minister of Tourism and Recreation.

I have examined the balance sheet of the Ontario Lottery Corporation as at March 31, 1989 and the statements of operations and net profits due to Treasurer of Ontario for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations for the year then ended in accordance with the accounting policy described in note 2(a) to the financial statements applied on a basis consistent with that of the preceding year.

J.F. Otterman

J.F. Otterman, F.C.A.,
Assistant Provincial Auditor.

Toronto, Ontario,
July 13, 1989.

Ontario Lottery Corporation

2 Bloor Street West
Toronto, Ontario
M4W 3H8
(416) 961-6262

Winning Numbers

Wintario	(416) 870-9170
Lottario	(416) 870-9122
Provincial	(416) 870-9161
Lotto 6/49	(416) 870-9134
Pick-3	(416) 870-9135

An Agency Of:

Ontario Ministry of Tourism and Recreation

Ken Black
Minister

On peut aussi se procurer ce en français